Responding to global demand for negative external effect management:
the capitalist firm challenged on its social and environmental responsibilities

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Abstract

The aim of this article is to pinpoint the institutional and organizational foundations underpinning Corporate Social Responsibility (CSR). We start by looking to understand the roots of where the global demand pushing for CSR actually stems from. We pinpoint an institutional demand for CSR symptomatic of the fundamental lack of regulatory oversight in the Fordist framework, coupled with a broader social demand driven by rapidly-expanding awareness on negative external effects. We then attempt to understand why capitalist firms are massively buying into this pro-accountability movement and the pre-requisite conditions governing operational deployment of CSR-based managerial practices. We conclude with an inventory of the limitations of the CSR regulatory potential on negative external effects.

Keywords: CSR, negative external effect, business case, Fordist compromise, governance, globalized capitalist firms

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Introduction

Sustained genealogical research has forged a certain degree of consensus on the historical roots of the concept of Corporate Social Responsibility [CSR] and its main forms [Heald, 1970; Blind, 1977; Carroll, 1999; Pasquero, 2005; Frederick, 2006; Capron and Quairel, 2007]. This paper goes a step further and tries to understand the deep reasons underpinning the widespread global wave on CSR. Indeed, it is striking to note just how far CSR has gone beyond a basic mode of management to cross over the traditional social and economic boundaries. From public authorities and trade unions, international institutions, non governmental organizations and firms, CSR is explicitly used in order to improve our contemporary economic systems. This paper is the first draft of a conceptual framework designed to clearly outline the current global movement surrounding CSR and underline its limitations.

Our discussion begins by setting out clear conceptual points. We draw on external effect theory to synthesize conceptual ties between negative external effect, social challenges, and CSR [I]. Our argument then splits into two strands. We start by analyzing the reasons prompting non-economic actors question capitalist firms on their social and environmental responsibility [II]. We pinpoint an institutional demand for CSR symptomatic of the fundamental lack of regulatory in the Fordist framework [II.1], coupled with a broader social demand driven by rapidly expanding awareness on negative external effect [II.2]. These two sets of demands converge towards the globalized capitalist firm, whose behaviour is criticized [II.3]. However, in our opinion, the purportedly-automatic voluntary opt-in from firms is far from a foregone conclusion, since it is founded on a paradox: how can satisfying stakeholders' expectations by internalizing negative external effects be made to fit with short-term pressure to create value for shareholders? This issue forms the core of our third section, where we stop and question the underlying reasons prompting businesses to buy into these institutional and societal demands [III]. One 'quick hit' explanation would seem to be a move to anchor the company's legitimacy, prompting businesses to deploy all manner of image-enhancing projects in attempt to convince stakeholders that they are socially responsible and have a clear social utility [III.1]. Looking deeper, though, and envisioning social responsibility within the company, the focus should be directed more towards the feasibility conditions for orchestrating a genuine shift in production and managerial activities. This hinges on two business processes pivotal to going beyond the CSR paradox: the economic rationalization of negative external effects within the company [III.2], and the transformation of these negative external effects internalization processes into economic opportunity [III.3]. We conclude by outlining a series of limitations that, in our view, curb the process of internalizing negative external effects under cover of CSR [IV].

I- CSR and the negative external effects issue

Despite numerous controversies, the European Commission's definition of CSR appears to have forged a certain degree of consensus [Capron and Quairel, 2007; Davis and al., 2008]. Thus, when understood as a concept whereby "*companies integrate, on a voluntary basis, social and environmental concerns in their business operations*" [European Commission, 2001], CSR is a cue for firms to take further steps to integrate the expectations of stakeholders impacted by the company's activities. Through a series commitments made on social responsibility, companies pledge to make sure they have minimal negative impact on well being of their stakeholders.

Economists generally use the more technical term "negative external effect[1] " to describe the 'collateral damage' impacting on stakeholders [Laffont, 1977; Catin, 1985; Papandreou, 1994; Cornes and Standler, 1999]. Negative external effects in firms operations have long been recognized as a reality, and indeed many economists see negative external effects as fatally inherent to market economy [Marshall, 1898; Pigou, 1932; Coase, 1960; Perroux, 1969, 1994; Laffont, 1977; Stiglitz, 2002].

Following M. Callon's line of thought, the existence of negative external effects stems from the fact that there is only partial institutional control governing and framing how companies operate: in situations of inadequate contractual safeguards or where standards, tax sanctions or property rights are inexistent, the firm's activities 'spill over' [either intentionally or unintentionally] onto a certain number of stakeholders [Callon, 1998, 1999, 2007].

Our assertion, built on the work of a number of proponents, is that CSR reflects the awareness that there is only partial intervention and oversight governing and framing firm activity, leaving a deficit that is behind the "*social and environment costs*" imposed on stakeholders, whose welfare suffers as a result. It should be underlined that this is not, in itself, an original vision of CSR, since a number of authors have adopted a similar view [Arcelus and Schaefer, 1982; Martinet and Reynaud, 2004; Perez, 2003; Crouch, 2006]. C. Crouch asserts that "*the central premise of CSR resides in companies taking ownership of the externalities they generate*" [Crouch, 2006, p. 1534].We too have adopted this analytical stance, since above and beyond the technical and logical line of argumentation deployed, it also carries the advantage of tying in with different schools of economic thought that, despite doctrinal controversies, have managed to aggregate a number of analytical developments hinging around the negative external effects issue. More precisely, and in line with F. Perroux, focusing our research on externalities necessarily sits us between the institutional and the organizational standpoints [Perroux, 1994], which is the ideal position from which to understand how a company re-engineers its modalities of interaction with stakeholders – a core issue in CSR (Davis and al., 2008).

<u>Postulate</u>: CSR consists in a voluntary attempt of firms to take greater attention on the negative external effects they imposed on their stakeholders.

[1] Conventionally defined as "*actions of one or more economic agents having consequences on the social welfare [in its broadest sense] of other third-party agents(s) not involved in the exchange or transaction*" [Guerrien, 2002, p. 212].

II- Roots of the global demand for CSR

Having properly settled our definition of CSR, the first objective in developing our argument is to pinpoint the roots of the quasi-global endorsement of CSR. There are two core strands to our point of view. We start by demonstrating the existence of an institutional demand rooted in the serious undermining of the former Fordist institutions that had historically regulated firms' activities and worked to curb spillover from negative external effects onto stakeholders. We move on to a more global level to demonstrate how demand for CSR stems from the growing aversion on negative external effects among modern-day democratic societies. We end by showing that these two sets of demands converge towards the capitalist firms, whose patterns of behaviour attract criticism and put them increasingly under the spotlight.

II.1- Institutional demand for a broader internalization of negative external effects

Economists talk about a process called internalizing negative external effects to describe the various institutionally-driven processes and pressures that combine to minimize the 'collateral damage' that affect stakeholders [Callon, 1999; Cornes and Standler, 1999]. Two periods of modern economic history can be observed in the implementation of institutional pressures in order to reduce and internalize negative externalities generated by firms: the Fordist period [1945-1975], and the current period, often called post-Fordist.

II.1.1- The Fordist framework governing negative external firms, or firms under zero social responsibility

We are certainly not suggesting that the period generally known as Fordist [1945-1975] was characterized by firms operating without generating any negative external effects; quite the opposite in fact. We nevertheless believe that the period experienced a form of social compromise on negative external effects spillover onto stakeholders.

B. Coriat asserts that Fordist is on one side defined as the assembly line and the organization of production enabling significant gains in productivity, but equally – and more generally – as a principle guiding the organizational and frameworking conditions governing how firms operate and the relationships they hold with stakeholders [Coriat, 1989]. The regulation of firm-stakeholders relations hinges on several factors resonating together to procure stability within the economic system [Boyer and Durand, 1993; Aglietta and Fernbach, 2001; Boyer and Saillard, 2002] and, ultimately, "social compromises" over the negative external effect issue. It should be emphasized that the ultimate aim of these compromises is not so much to erase the negative external effect as to make them acceptable to stakeholders. These social comprises on externalities were forged, schematically speaking, via the invention of an institutional triad essentially consisting of the market, the unions and the State:

1- The State clearly plays the role of central pillar, upon which the externality frameworking system is based. When negative external effects spillover onto stakeholders was deemed too strong and bilateral negotiations were unable to reach a compromise agreement, the State would force firms to pay business taxes or meet production standards [Boyer and Saillard, 2002].

2- Indeed, the State also operated as the preferred partner for the unions, who played a significant role in realigning the externalities spillover onto the firm's principal stakeholder, i.e. the employees. The unions not only provided a line of defence to protect employees against the temptation pushing certain entrepreneurs to offload certain costs onto the labour force; they also led these same entrepreneurs to take onboard a whole package of services directly benefitting the employees [Castel, 1995; Supiot, 1999].

3- Besides taxes and production standards, the State also had the possibility of regulating how the markets worked, given that competition was essentially based at a national scale. Without going as far as claiming there was a "*pure and perfectly competitive marketplace*", the State did manage to forestall monopolistic situations, and any monopolies that were allowed to form generally involved direct State participation in the firm's decision-making mechanisms [Albert, 1990; Gomez, 2001; Perez, 2003]. The State's involvement acted to minimize the existence of negative external effects, making them more socially acceptable by directly influencing market prices, lead-times and quality levels for the commodities and services on offer [Hollard, 2002].

The composite action of the 'Fordist institutional triad' thus made it possible to reach an 'efficient frontier' in terms of the externality burden on stakeholders, i.e. a level of negative external effects that was socially acceptable to stakeholders and economically tolerable to firms.

Before closing our analysis of the Fordist period, it should be emphasized that the externality-related responsibilities for which firms were accountable were first and foremost legal [civil or criminal law], and in no way social. Once the level of external effects unleashed by a firm was deemed socially intolerable, a legal procedure would be launched in order to define a lawfully acceptable level for stakeholders. The efficient frontier for externalities was materialized through laws and/or by-laws that were enforced by agencies with public authority affiliation (Coase, 1992).

II.1.2- Eclipse of the Fordist social compromise on negative external effects

The 1970s saw firms initiate radical change in production processes that would significantly weaken the influence of the Fordist institutional framework system, sweeping away the social compromise on negative external effects. This transformation in the production process, which has now been extensively characterized, is schematically visible at two levels [Davis and al., 1994; Ahmadijan and Robinson, 2001; Boyer and Saillard, 2002; Kristen and Zeitlin, 2005; Davis and al., 2008]:

> **1- Externalization**: the search for greater productivity led firms to integrally re-architect their "value chain" [Porter, 1985, 2008] and turn towards market transaction solutions to manage their production processes [Williamson, 1984].
>
> **2- Globalization**: Henceforth, firms realign the various components of their value chains at worldwide scale in order to benefit from local competencies and/or from the advantages and potential offered by local markets [Porter, 1985]. Firms add more and more links to their supply and value chains, stretching ever father across the globe for cheater materials and labor (Davis and al., 2008).

Davis and al., note that "*with far-flung value chains, decentralized governance, and churning employees, multinational corporations have become 'rootless cosmopolitans'… This presents corporations with a paradox: at a time when more stakeholders than ever are calling them to account, firms have but a foggy notion of what, exactly their obligations are*." (Davis and al., 2008, p. 32). In effect, how did these organizational transformations impact on the 'Fordist institutional barrage' and on the social compromises covering negative external effects?

1- The transformation and globalization of production processes undermined the State's capacity to police firms that had mutated into transnational giants [Chandler *et al.*, 2005]. Evidence of this weakened position is visible at two levels: The transnational firms discovered they could exploit their monopolistic position to offload what they saw as 'illegitimate' costs onto the stakeholders. Furthermore, companies also discovered that they could organize competition between States and orchestrate social and environmental dumping at worldwide scale.

2- The transformation had equally important impacts on union action, since the breakdown in employee collectives meant that unions could only protect a fraction of the workforce involved in the production [Osterman, 1999].

The early 1970s therefore marked the onset of a crippling loss of influence of the Fordist institutional triad because "*two important kinds of boundaries became increasingly fuzzy: corporate boundaries that mark the distinction between activities and transactions occurring 'inside' as opposed to 'outside' a corporate entity, and national boundaries that separate 'domestic' from 'foreign'*" (Davis and al., 2008, p. 10). Fatal cracks appeared in the Fordist barrage, and externalities flooded over onto stakeholders. C. Crouch notes that "*there were precious few solutions that could prompt corporate transnationals to take account of the externalities they were generating not just on national but also international scale, given the weakness of the institutional pressures in place at the time*" [Crouch, 2006, p. 1553]. The efficiency frontier for negative external effects had to go back to the drawing board.

II.1.3- Reframing the post-fordist production process, or the emergence of corporate social responsibility

As highlighted above, the transformation of the production process (externalization + globalization) created a situation where firms were outflanking the Fordist institutions that had originally been developed as a framework for internalizing negative external effects. As Davis and al. note, "*when the lines of demarcation between 'domestic' and 'foreign' and between what is 'internal' and 'external' to a firm are clear, the assignment of responsibility for behavior, and the jurisdiction that should be looked to fore recourse, is generally unambiguous. As the transformation of multinational corporations has made these boundaries increasingly fuzzy and permeable in many cases, much of the clarity in assignment of responsibility and jurisdiction of recourse disappears. And these developments have created new and unfamiliar dilemmas for firms and governments*" (Davis and al., p.18-19). Did this mean that firms, driven by their post-Fordist organizational forms, could now offload any negative external effects onto theirs stakeholders?

The answer has to be no, since the externality spillover appeared to reach it limits, as materialized in a growing wave of ‘outcry’ from stakeholders [Hirschman, 1970, 1972; Beck, 2003; Crouch, 2006; Davis and al., 2006]. This wave of protest resulted in new policing principles being drafted in to support the Fordist institutional triad, a campaign that called for firms to show more responsibility in managing their negative external effects. Fledgling institutions with burgeoning legitimacy attempted to offset both State and union efforts to wrestle back some kind of market control in order to cut back the negative externalities offloaded onto stakeholders. Their actions are visible at three complementary levels:

1- **New forms of market-based pressure**: new consumerism and investment patterns, based on opting for and adding economic value to firms that place the reduction of negative externalities at the forefront of their strategic planning and positioning [fair trade, socially responsible investing, etc.].

2- **New forms of norm-based pressure**: This new norm-based pressures – known as ‘soft law’ – set general principles underpinning business operations for firms who aim to cut down on the externalities left for their stakeholders to deal with.

3- **New business assessment and rating principles**: Social auditing agencies made their way onto the scene, assessing corporate performance on the integration of stakeholder interests based on various norms, standards and guidelines [generally developed through soft law]. These social accounting reports are then communicated to the various stakeholders, as a tool for judging corporate behaviour and performance on the issue of internalizing externalities.

To close, it should be underlined that these attempts to instill a post-Fordist control framework had no clearly-established legitimacy; the responsibilities they define are not legal but social, designed to encourage firms to internalize their negative external effects. Voluntary effort on social responsibility is the watchword principle underpinning the new institutional organizations backing up and compensating for the regulatory capacities of the Fordist institutional triad: firms and markets have become their own source of governance [Crouch, 2006]. In other words, it is no longer down to State authority to boundary the efficient frontier for negative external effects, but firms and markets.

<u>PROPOSITION 1</u>: Firms are required to demonstrate broader social responsibility and consequently internalize negative externalities, due to ineffectual regulatory control from the Fordist institutional triad.

II.2- Societal demands for a broader internalization of negative external effects

This second step explores the argument deeper. Failures have undeniably appeared in the Fordist institutional barrage, revealing external effects that had long been supposed fully contained. However, the barrage is also being breached by a new flood of external effects of unprecedented power. These emerging external effects certainly stem from innovation in production technologies and managerial practices. Most importantly, though, we posit that in our contemporary democratic societies the internalization of negative external effects has become one of the key drivers in social and economic life.

II.2.1- Proliferation of stakeholders and controversies over negative external effects

A number of authors have highlighted how an organized civil society has formed in the advanced industrial societies rallied around various social issues and challenges, notably the potential external effects firms shed onto their environment [Hirschman, 1970; Kapp, 1976; Loya and Boli, 1999; Callon, 1999; Davis and al., 2006]. The plethora of issues at stake has meant that stakeholder mobilization is almost mechanically generating increasingly widespread exposure of external effects. M. Callon refers to a "*proliferation of hotspots*" in advanced liberal democracies to define situations where unravelling the tangled web of responsibilities and assessing the victims, nature and impact of negative externalities is such a complex task [Callon, 2005]. Identifying and assessing externalities now takes a battery of expert technical skills in order to segregate each input pertaining to the victims, their numbers, the actual damage caused, the perpetrators…

The proliferation of socially-focused factors logically draws in multiple appraisals and multiple standpoints, resulting in an escalation in the number of "*socio-technical controversies*" [Callon, 1999] that makes settling on an efficient frontier for internalizing negative external effects an even more complex task.

During the Fordist period, the number of controversies was 'mechanically' capped by the prevailing social configuration and overseer status of government authorities who arbitrated any debate[2], whereas the modern, post-Fordist era is marked by spiralling controversies and associated appraisals that slow and sometimes even hamper the process of finding technical and institutional solutions. The further stakeholders are integrated into the process of correcting the externalities they are forced to bear, the more complicated it becomes to anchor a 'social compromise'. And here lies the paradox of the CSR frameworking solution, since as CSR moves to empower stakeholders in building their own compromises on negative external effects, it actually fuels the surfacing of these external effects, thus compromising the possibilities of reaching a consensus.

II.2.2- Negative external effects at the heart of the social activism approach

That said, mushrooming stakeholders is not the only factor explaining current hypersensitivity to external effects. As highlighted above, and in line with a number of commentators, it has been the very nature of our economies to generate certain externalities – externalities that can potentially cause major, widespread negative impacts on the well-being of numerous stakeholders [Corne and Sandler, 1999].

However, transactions made in the presence of externalities feature two components that are only partially integrated: one is the exchange of goods, i.e. wealth, but there is also the exchange of ills, or in other words, risk [Kytle and John, 2005; Latour, 2007]. This makes the price in any exchange a decisional trade-off between the value given to the commodity exchanged and the risk incurred. There is, however, a third component to any transaction: the externality, i.e. the portion of risk not factored into the price calculated. On the strength of this insight, we can run with U. Beck's argument that there are now two movements at the heart of social unrest: "*a movement centered on the spread of wealth and a movement centered on the spread of risk[3], converging on a political battleground*" [Beck, 2001, p. 35]. And at the heart of this battle over the spread of risk is the battle to internalize the negative external effects in the transactions.

However, driven by technical development, facilities development and the proliferation of social-oriented factors, the movement to spread externalities is becoming an increasingly pressing issue. Today's complex, technology-driven societies are generating new,

[2] Sometimes brutally, and driven by favouritism, as R. H. Coase highlighted in his critical analysis of Pigouvian doctrine on externalities [Coase, 1960; Bertrand, 2003].

unprecedentedly vicious externalities that are not integrated into business transactions. In Fordist industrial societies, the core social issue was "*how can socially-generated wealth be socially redistributed unequally yet legitimately*" [Beck, 2001, p 36]. Contemporary, post-Fordist society is now haunted by a sharper, more telling question: "*how can socially-generated risks be redistributed unequally yet legitimately?*" Whereas the Fordist model upheld that distributing wealth was 'enough' to establish a social compromise on externalities, the current climate is characterized by a spiralling aversion to these kinds of effects. The 'fair' distribution of wealth is no longer satisfactory as a solution to meet stakeholder needs. In the *risk society*, the negative externalities generated by new types of organizations and the modernization of production systems are being progressively exposed and increasingly pressured for internalization. The achievement of social compromise positions is constantly being second-guessed.

PROPOSITION 2: Global demand for CSR stems from an increasing pressure to internalize negative external effects in an advanced industrial society characterized by the proliferation of socially-focused factors and unprecedented materialization of these external effects.

II.3- The capitalist corporations singled out for criticism

We have just highlighted two fundamental developments that we believe have fuelled mounting pressure to internalize negative external effects, i.e. the waning influence of the Fordist institutional triad, and the escalating materialization of negative external effects in advanced industrial and democratic society. However, we still have to understand why these demands predominantly converge towards the capitalist corporations rather than other social actors.

Our starting point is the widely-held argument that rarely in the history of capitalism has big business been so powerful and, consequently, so visibly in the public eye [Chandler et al., 2005]. The power wielded by multinationals is a double-edged sword, since while earning them increased prominence; it also makes them more vulnerable to social criticisms and accusations levelled by many stakeholders (Davis and Thompson, 1994).

That said, our analysis will look to take this reasoning deeper: we assert the idea that the contemporary movement to expose negative external effects carries self-contradiction that results in the stigmatization of global capitalist firms. With the escalating materialization of the "collateral damage" generated by current economic practices, it is becoming increasingly difficult to link the effects of the exposed externalities with specific causes and the perpetrators [see "*proliferation of hotspots*"]. This systemic ambiguity is essentially ascribable to the overriding complexity of our modern economies. The ultra-sophisticated task allocation systems involved together with postmodern criticism of science and the multiplicity of rival appraisals on negative externalities can only result in a high level of all-round complexity. Consequently, while the number of victims revealed keeps piling up, clearly-identified perpetrators are cruelly lacking. This very complexity of the causes fuels systemic irresponsibility. We act physically at a specific place in the system without building a new political or institutional framework for control.

In this rather extreme configuration, naming a scapegoat becomes a voice that catalyzes the social frustration being bottled up. The society-wide prominence of global capitalist firms places them first in the firing line when assigning responsibility. Perpetrator figureheads crystallize frequently on the back of certain scandals. First comes trial by media, followed by boycott campaigns. The collective imagination is fired by a long list of examples highlighting corporate (mis)behaviour in action: Nike running sweatshops in Indonesia, Total practicing forced labour in Burma, Shell dismantling its Brent-Spar oil rig in the middle of the North Sea, and so on.

PROPOSAL 3a: The unprecedented power and media exposure of capitalist corporations makes them the focal target of pressure to internalize negative external effects.

PROPOSAL 3b: This corporate accountability movement is given impetus through the scapegoating of capitalist firms in a complex society where the victims proliferate but where it is increasingly difficult to identify the perpetrators.

Having underlined the deeper mechanisms underlying global demand for CSR, we now set about attempting to understand how and how far firms heed the call. The intent shown by companies to embrace more corporate economic and social responsibility may appear questionable on a number of counts [Chamberlain, 1973; Korten, 1997; Attac, 2003; Bakan, 2004]. If integrating social responsibilities carried zero costs or was even a win-win mechanism of value creation, as it is purported to be in the 'CSR industry' and its 'business case' concept [Elkington, 1994; Aggeri and Acquier, 2007], the subject would long since have become hackneyed and the problems resolved by firms whose primary function is simply to maximize shareholder profits [Friedman, 1962; Jensen and Meckling, 1976; Jensen, 2002]. This apparent paradox inherent to CSR is being increasingly emphasized by commentators across the board, from critical schools of thought [Gray, 2001] to institutional economists [Campbell, 2007] and back to sociologists studying social movements [Davis and al., 2007, 2008]. C. Crouch pinned down the ambiguity of CSR by highlighting that "*for any firm, reducing negative externality or developing positive externality will inevitably involve actions that will incur costs yet for which there is no payment. This issue is a pivotal to CSR: how can a profit-maximizing firm be expected to engage in this kind of action?*" [Crouch, 2006, p.1534].

III- Social responsibility inside the firm

Reading between the lines, what we have conveyed above is that the global capitalist firm has undeniably taken on a status of institution, attracting widescale public attention in the process. This consequently makes them more sensitive to safeguarding their legitimacy, which now crucially hinges on greater ownership of their negative external effects. This internalization project, which may turn out to be pure rhetoric, is in practice articulated around two complementary activities: economic rationalization of negative externalities, and converting these external costs into economic opportunity in order to offset the rise in transaction costs and/or organization costs inevitably triggered by the internalization process.

III.1- Safeguarding legitimacy and decoupling the organizational response

Stakeholders seeing their well-being deteriorate become politicized and get organized, challenging, in the process, the firm's *licence to operate* [Hirschman, 1970; Scott, 2001; Beck, 2003; Davis and al., 2006]. Their challenge is directed not only at firms but also at the institutional system, i.e. the body of norms, beliefs and institutions that authorizes and legitimizes this particular organizational setup [Scott, 2001]. While the Fordist institutional triad is puts up resistance and organizes the internalization of externalities, firms are freed of the burden of directly looking into stakeholder needs since these needs are channelled through the unions, the State, and the courts. However, once these institutions become less inoperative, firms find themselves having to directly deal with stakeholder expectations or face the risk of seeing their ‘citizenship’ come under fire (Davis and al., 2008). This is how, in the post-Fordist system, the voluntary internalization of negative external effects becomes the touchstone of the process towards legitimizing the firm, which is left solely and directly responsible for establishing and safeguarding its legitimacy in the eyes of the stakeholders.

However, as outlined above, post-industrial society is marked by rapidly-expanding awareness of negative externalities, and the big corporations are constantly being scrutinized by increasingly organized and media-leveraged stakeholders [Davis and al., 2005]. To avoid being targeted and saddled as the ‘scapegoats’[4] of a structurally deficient economic system, firms have strong incentive to put forward a well-focused solution on all of the stakes and challenges they are involved in. Most big firms have geared their public relations to stakeholder audiences by spotlighting and showcasing a set of actions intended to form their CSR policy. This “exercise in transformism” naturally met with skepticism from certain socially-oriented activists [ATTAC, 2003] and researchers [Capron and Quairel, 2004; Agerri *et al*., 2005] over the ability of businesses to adapt their game.

This shift towards a more conformist position, which consists in adopting a mutual reference framework between the firms and its stakeholders, can be either symbolic or effective, since as M.A. Glynn and R. Abzub point out, *“resemblance between an organization’s symbolic attributes and those of other organizations within its organizational scope is sometimes enough to generate a badge of conformity*” [Glynn and Absug, 2002]. It is, therefore, evident that one of the main difficulties hampering the internalization of negative externalities is that there is nothing to stop firms externally advocating practices that have been rationalized and legitimized in the public arena but that have no direct links to the organizational realities existing internally [Meyer and Rowan, 1977; Elsbach and Sutton, 1992; Zimmerman and Zeitz, 2002]. Corporate managements, under head-on pressure from the stakeholders, opt to endorse a policy of internalizing negative externality and building an image of their business activity – a “*strategic intention*” [Hamel and Prahalad, 1989] deployed to alleviate and contain stakeholder pressure, but which may not necessarily translate into any organizational reality. If pushed to the extreme, this ‘decoupling’ can spawn internal tension, given that institutionalized rules, practices and tools, while conferring legitimacy to the business

[4] Understood in terms of Girardian scapegoating.

activity, often run counter to the organization's internal logic which is geared to internal efficiency [Parsons, 1960; Weick, 1979; Fiss and Zajac, 2006]. This makes for "schizophrenic" business, projecting a glowing image to stakeholders on the outside in order to pre-empt criticism on the social front, whereas on the inside, the organizational realities barely (if at all) fit the image.

PROPOSITION 4: Corporate commitment to CSR is facilitated by the possibilities that lay in orchestrated decoupling between institutional communication and production activity.

However, the actions led by businesses under the CSR banner do not stop at symbolic conformism. What are the conditions governing a genuine transformation in production activity following the firm's move to internalize negative external effects?

III.2- Economically-rationalized negative external effects

If we go on the logic of M. Porter, who draws on the rationales of the neoclassical model to assert that firms will systematically implement any profit-generating innovation, it is evident that if CSR was a spontaneously value-adding activity, then the externality question would have been swiftly settled long before now. M. Porter illustrates his line of reasoning by using a well-known metaphor in neoclassical economics: you'll never find a $10 bill on the ground, as someone will always pick it up before you do. In other words, if there was a new, socially-responsible value-adding business practice, then firms would naturally adopt it, as long as the practice was not institutionally-constrained. All "*social and environmental costs*" would be eradicated, as it would be in the firm's best interests to spontaneously mitigate them.

However, according to M. Porter's argument, the real world does not fit with the Panglossian belief that firms always make the best possible choices [Porter, 1995]. True, it could potentially be plausible under the irenic conditions required for neoclassical general equilibrium, with perfect competition among perfectly rational agents in a state of perfect information. Informational uncertainty and bounded rationality mean that analytical costing models take on a determinant role in the economic assessment of the opportunities in CSR. The next logical step is that only a change in the factor inputs to economic costing models can explain why firms commit to social responsibility and the reduction of "*social and environmental cost*".

Moving ahead from A.C. Martinet [1980, 2004], we should be able to identify two direct consequences of stakeholder mobilization leading firms to totally re-engineer their economic analysis of negative externality. Burgeoning negative external effects may result in the re-integration of certain highly-mobilized stakeholders, often with a multiplier effect. Reintegration, whether near-immediate or deferred, can bring about changes in the economic analysis of negative externality by triggering shifts in timeframe and geographic scope:

1- Immediate reintegration means that the spillover onto stakeholders has near-instantaneous financial repercussions on the firm. Even if the firm is able to cut its production and/or transaction costs at time-point T, the financial backlash at T+1 will generally cancel out the gains made. 'Re-internalized' costs are dependent on the scale of the organizational failures and the impetus gathered by stakeholder mobilization.

2- Deferred reintegration means that the social cost externalized to stakeholders has financial repercussions for the firm that will kick in long-term. The firm cut its production and/or transaction costs at time-point T, but the financial backlash at T+n will cancel out or stifle the gains made. The costs externalized follow a more complex pattern than in the first situation, bouncing from stakeholder to stakeholder before the firms gets the backlash.

Business-led advocacy of CSR stems from an economic rationale based on a "cost-benefit analysis" that factors in the knock-on effects that external effects have on business performance. Faced with mounting stakeholder mobilization, corporate management is finding it increasingly rational to "bet" on strong reactions from stakeholders who can be expected to more or less vehemently challenge externality spillover from the firm [Beck, 2003; Gendron and al., 2004]. With these new rationales comes a need for new analytical models factoring time-frame and space-frame shifts into the economic analysis of external effects inside the firm.

<u>PROPOSITION 5</u>: Corporate commitment to CSR stems from new systems of negative external effect analysis and the economic rationalization of the economic risks liable to be generated.

III.3- Converting externality into economic opportunity

We have just seen how a company-level change in economic analysis is an initial move towards a solution to the dilemmas created by two clashing sets of demands: short-term profitability *versus* meeting the needs of a broader circle of stakeholders. That said, this proposal may appear to be trailing by the wayside in comparison to the fast-lanes to economic success championed by the proponents of the "*business case*[5] " [Elkington, 1998; Laville, 2002]. Commentators have been calling on business to seize these opportunities for a long time now. Under these conditions, how can the firm find a way to strike a balance between internalizing negative externality and creating economic value without stopping short at the development of a new accounting system?

To illustrate our line of thought, let's go back over M. Porter's metaphor on the $10 note. M. Porter asserts this money can never be found lying on the ground due to the maximization of profit-generating functions in an economy geared to the neoclassical paradigm. Exploring deeper into our argument, our touchstone is the fact that the very criteria defining value itself are not universally shared but are actually social constructs [Callon, 1999]. The key idea that we defend here is this: the issue is not how to lay our hands on that $10 bill; the real issue is to understand that the worn-out piece of paper lying there on the ground is actually a banknote!

M. Porter recently published a paper discussing the "business case" as a possibility. The article went on to embrace the concept of "*shared value*", defined as a "*society-oriented benefit that can create value for the firm"* [Porter and Kramer, 2006, p. 8]. What set of conditions would enable the creation of a shared value syndicating both firm and stakeholders around the internalization of negative externalities? There are two ideotypical scenarios:

1- In configuration 1, the beneficiary under the internalization of negative externalities is ready to pay to improve their situation. This is kind of scenario outlined by R.H. Coase [Coase, 1960]. R.H. Coase, working within a straightforward polluter-polluted model, envisioned the option that the polluted party could provide the producer economic compensation to incentivize the reduction of their pollutive impact. Stakeholders would table their own negotiations, after which the victim could

[5] The term "business case" has recently emerged as a buzzword in management vocabulary. The term labels a structured proposal that marks a business management change that cost and benefits analysis has proven justified.

subsequently be led to finance the internalization if it proved an economically cheaper option than the wellbeing-related damage suffered.

2- In configuration 2, a third party is ready to finance the wellbeing safeguarded through the internalization of an unknown party's negative externality. Pivotal to this configuration is that there has to be differentiation between externality-sufferers and the agents set to create value through the internalization process, which equates to building a 3-factor model where the factors are all three agents: a polluter, a polluted party, and a third party free of the externality loop but ready to pay for it to be internalized. This scenario is based on the supposition that there would be a third-party stakeholder with the 'goodwill' to pay to improve the situation of an unknown someone else [Lankoski, 2000; Rheinhardt, 2005]. A third-party stakeholder would be paying to attenuate damages without directly gaining in terms of an immediate improvement in their wellbeing. The first time through, this could, empirically speaking, appear a hopelessly optimistic scenario, but when you look closer, there is an array of real-world examples stretching from fair-trade business to organic cotton textiles. The consumer generally pays an additional cost to get these products on the marketplace, and the excess cost benefits agents right at the other end of the value chain. The 'moralization' of economic transactions via 'ethical consumerism' is thus a driver [6] of this second configuration.

The creation of the 'business case' is therefore founded on stakeholders showing proven generosity and a capacity for empathy, since they accept to add value to process of externality management.

<u>PROPOSITION 5:</u> Corporate commitment to CSR stems from certain stakeholders attaching added value to taking ownership of negative externalities, either because they are set to benefit from the internalization of the externalities or because they are ready to pay for the well-being of unknown parties.

[6] Finance also plays a key role in the process.

IV- Just how responsible can firms get?

Finally, before we slip into some angelic naivety, we should not lose sight of the fact that there are limits to effective real-world CSR. Can it be conceivable that the creation of markets – and therefore of economic opportunities – should hinge on reducing the negative external effects that the system itself has created? There are examples pointing in this direction. Follow how the brandname BP has muted from British Petroleum to Beyond Petroleum; not just jargonistic dexterity but equally skilled strategic dexterity. Within the space of a few years, BP has become the world-leading producer of photovoltaic cells, and the BP brand also has its own specialist branch operating in the environmental remediation sector. This is an illustration of economic activity feeding on its own negative externalities. This market, originally created through open negotiation and dealings with stakeholders, is now the arena set to guarantee the progressive internalization of negative externalities. Have we just unearthed some advanced principle of the capitalistic system? Can this vision, which shares overlap with the neoliberal ideal, hold sway, given the rapidly-expanding awareness of negative externalities and flagrant market imperfections?

Our argument would not be complete without also focusing on the limits of the 'business case', i.e. making private profit from taking on the "*social and environmental costs*" that other economically-driven agents previously offloaded onto stakeholders. We pinpoint three sets of limits that in our view seriously undermine the pro-governance frameworking manifested by CSR proponents.

IV.1- Technical limits related to the nature of externalities

The first, most obvious limit is directly tied to the nature of the negative externality itself. A whole school of commentators have emphasized the dawning of "major externalities" driven, among other factors, by the accelerated complexification of technical systems and the leveraged networking of human systems [Lagadec, 1981]. Factors such as the number of globally-scattered victims, deep-seated organizational breakdown in the economic system triggered by major crises, and systemic negative externalities all cast doubt on the capacity of a market forces-driven solution win through. Certain systemic externalities therefore earn the dubious title of major externalities or 'public bads' that simply cannot be internalized via CSR-led principles. These externalities are typically non-exclusive and non-rival [Cornes and Standler, 1999]. Non-exclusivity means that there is no way to prevent a stakeholder from having to carry the burden of the externality. GMOs are the case-in-point example of non-exclusivity: genetic cross-contagion is technically impossible to contain. Non-rivalry means that negative impact on the wellbeing of one stakeholder does not atone the negative impact on other stakeholders. Stakeholders will continue to bear the very same negative impact on their wellbeing regardless of the number victims who bore the burden before them. Global warming due to greenhouse gas emissions is a typical non-rival externality. There is obviously no economic transaction on earth to compensate these kinds of major externalities. By very definition, there cannot be an economically viable demand, since all the stakeholders simultaneously experience the same damage to their quality-of-life. Indeed, major externalities also raise the question of elasticity between the damage burden suffered and the amount set as compensation. In scenarios involving heavy elasticity, once a certain damage threshold is breached, any compensation costs will become unfeasibly expensive.

PROPOSITION 7: The internationalization of non-rival/non-exclusive externalities is impossible under a CSR-driven framework

IV.2- Economic limits to organizing internalization marketplaces

This is a limit that leads directly onto a second economics-related limit. The issue may lay with marketplace organization itself, before the question of major externalities even comes into play. The free market is in fact a misnomer, as markets are not, in fact, free; there will always be transaction costs [Coase, 1937], some of which can be prohibitively heavy. The money pumped into market research, winning contracts and tracking their execution can act as a barrier to establishing a compromise on negative externalities. Given the amounts tied up in these investments, any demand coming in may simply be financially unbackable, or the market may just be impossible to organize.

This argument harks back to the starting point of our analysis, where we went on to show how post-Fordist society is characterized by unprecedentedly complex production systems. Such being the case, if the collapse of the "*value chains*" [Porter, 1985] produces externalities that used to be contained within the hierarchy, it is partly because the internal regulatory processes were destroyed. The thin-stretched chain of actors providing inputs between the initial raw material and the finished end-product are only weakly linked by a multitude of trade transactions. This allows an externality created at the start of the process to have a knock-on effect on actors at the other end of the chain without the parties being able to negotiate with the creator and without prohibitively expensive transaction costs.

The upshot is that any move to create a new market designed to offset these negative externalities would have to run counter to the same value chain-breakdown movement that created them! Under the Fordist system, the production processes were internalized, which meant that firms had every reason to prevent externalities being unleashed because the spillover would fall exclusively to either one of their process-integrated support functions or to one of their own subsidiaries. Either way, the problem had to be settled within the scope of action of the same, single hierarchy. The shift towards outsourced support functions and subcontracted production units brought about a shift in business logic… Now, negative externalities could only be rationalized and conferred economic added-value if there was a wholly non-mechanical market machinery, which to a certain extent is in direct conflict with the economic rationales that originally spawned the externalities.

PROPOSITION 8: The economic internalization of negative externalities is correlated to market organization costs. A break-up of the value chain makes it impossible for markets to internalize the full weight of transaction costs.

IV.3- Ethical limits to market forces-driven handling of negative externality

The final extension to our argument is to conclude on ethical limits to the merchandization of the externality internalization process. This is a point that resonates in a number of debates centered on the assessment of economic damage. The recent case of the Erika trial unveiled a whole new system of living-world accounting, one that insurance companies had already been widely conversant with. The search for compromise and its corollary the commoditization of the living world in order to come up with figures to serve as a basis for stakeholder transactions cannot but raise question marks. The assessment of economic value also forms the backbone of the cost-benefit analysis tools employed since the 1970s by the US Environment Protection Agency and by government administrations in developed countries worldwide. This often sinister accounting system also has question marks over it.

Lastly, it should be emphasized that private benefit does *not* equate to a positive net social output. While it may be true that the technical and economic conditions are there for the firm to internalize at a profit, there is no guarantee that profit internalized will have any overall impact on the global wellbeing of the stakeholders involved, in which case it would equate only to a redistribution of damages and therefore of responsibilities without any positive improvement in the wellbeing of the victims.

PROPOSITION 9: Market-led internalization of negative externality presupposes socially-acceptable, operatively-effective markets.

Conclusion

This paper has sketched out a conceptual framework designed to provide insight into the factors driving the widespread CSR movement. The economic concept of 'external effect' serves as the backbone to our reasoning, which is set out in steps posited under nine propositions. We begin by showing how firms had been pressured to internalize negative externality, with demand coming from two corners: not only an institutional demand, stemming from fatal cracks in the Fordist barrage, but also a broader societal demand evidencing that the Fordist barrage had been breached by a rising tide of awareness on new externalities. These two sets of demands converge on the global capitalist firm. Our second step was to investigate why these firms appeared to buy into this push for CSR. Our first conclusion was that their policy was guided by the necessity to hold onto their legitimacy. Their in-built need to be accepted by society can result in a split, where public relations efforts directed towards stakeholders can be decoupled from the firm's technical operations on the ground. We then tackled the issue of what would be the requisites to orchestrating the ground-up transformation of productive activity that could potentially erase the negative external effects. We identified two types of action: the economic rationalization of externalities within the company, and the stakeholder-led movement adding market value to the act of taking negative externalities into account. Finally, to sidestep any emphatically naive depiction of a rational profit-maximizing firm capable of creating value by cutting its 'social costs', we set out a certain number of limits contouring the purely market forces-led handling of externalities as posited by the CSR ideal: limits inherent to the very nature of externalities; limits to market-led coordination on externalities; limits to the moralization of the marketplace where consumers are prepared to pay for the wellbeing of unknown third parties.

The solution tendered through the CSR framework is doubtless elegant and compelling enough to attract intellectuals or politicians on the lookout for an innovative solution to the recurrent negative externalities issue. The fact remains though that in reality, this drive to framework externality is far from operational at ground level. The shortfall opens room for a potential third trajectory: could the market be politically instated as regulator governing today's modern economies?

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